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UNCLAS SECTION 01 OF 02 KINGSTON 002720

SIPDIS

STATE FOR WHA/CAR (WBENT), OPIC for Mary Mervenne

E.O. 12958: N/A

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SUBJECT: PROPOSED OPIC INVESTMENT GUARANTY: POST VIEWS FROM JAMAICA

REF: SECSTATE 221570

Summary

1. (U) Post is responding to OPIC's request for comments and recommendations regarding the proposed OPIC investment guaranty to the National Housing Trust of Jamaica (NHT) in connection with the plan by NHT to finance mortgages and other costs associated with a low-income housing initiative for greater Kingston (reftel). Post believes that the proposed project makes sound financial sense, and will offer significant social benefits, despite the possibility of considerable default rates from the actual homeowners to the NHT. End summary.

Background

2. (U) The National Housing Trust was established in 1976 to address the housing shortage which resulted from a growing population and the inadequate annual output of houses by the public and private sectors. The Trust emerged out of the need for a financial institution that could mobilize additional funds for housing and ensure that those funds are available to more Jamaican families at rates below the traditional markets rates. The institution was given a broad mandate to add to and improve the country's existing supply of housing, and to enhance the usefulness of the funds of the Trust by promoting greater efficiency in the housing sector.

3. (U) The NHT is funded by a combination of personal and corporate contributions. Employers are required to deduct two percent of each employee's salary along with three percent of their own wage bill and remit these funds to the NHT on a monthly basis. Self-employed persons contribute two percent or three percent of earnings depending on the occupational category in which they fall. Under the NHT Act, all employed persons, between the ages of 18 and 65, who are earning the minimum wage and over must make contributions to the Trust. As a result of this "Pay As You Earn" (PAYE) system, the NHT is one of the most cash rich of all the quasi-governmental agencies.

Post remarks

4. (U) Post has some concerns that there may be fairly widespread defaults on the mortgages in this case, not only because the recipients are from low-income households, but also as a result of the moral hazard inherent in the transaction: such families have little incentive to repay NHT, as the units are in neighborhoods such that resale of a repossessed property would be difficult and highly unlikely. The fact that the OPIC loan will be repayed by the NHT, and will not be linked to potential defaults, however, makes this point moot from a financial perspective. Since its inception, the NHT has been characterized by sound stewardship of its considerable resources.

5. (SBU) Another point of which OPIC should be aware is that the NHT has been used, and will almost certainly be used in the future, for political leverage. While this is clothed in the guise of social improvement, there is always a political element in play. In this case, it is heartening that the developments seem equally spread among both major political parties. There are indications that this was not the case when the idea for the project was germinating several years ago, but the reality is that now it stands to benefit neither party to a significantly greater degree than the other.

6. (U) In terms of both transparency and stability, there are no indications that OPIC should have concerns. There have never been suggestions of impropriety among the NHT's board to Post's knowledge. The thought of the NHT ceasing to operate under any other political administration (elections must be held by the end of 2007, but will likely occur earlier) is untenable.

17. (U) The Inner City Housing Project is among the largest that the NHT has ever undertaken. The OPIC loan will allow NHT to allocate its assets to other construction activities that are badly needed in the greater Kingston area. Post believes that NHT's financial resources will ensure that OPIC recoups its investment, and the social benefits that will accrue to the greater Kingston area merit this foray into historically unfamiliar territory for OPIC.

JOHNSON